

# Rostelecom Bets on Mobile Internet, Cloud to Grow

By [The Moscow Times](#)

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Rostelecom hopes mobile broadband will offset declines in its core fixed-line calls business as it seeks a greater share of Russia's increasingly competitive telecom market, CEO Alexander Provotorov told Reuters.

The state-controlled former long-distance call monopoly was beefed up in 2011 through a merger with several regional operators to challenge private players in more lucrative market segments such as mobile, broadband and pay television.

While local fixed-line calls over its 2.5 million-km network were still the biggest source of its 2011 sales of \$10 billion, Rostelecom wants to at least double mobile revenues by 2017 to more than \$3 billion.

But as many Russians already own several SIM cards, mobile voice traffic has little room to grow and the fixed broadband market, which has recently boomed, is also nearing

saturation.

"Today the fastest growing market in telecom is wireless access to the Internet. This is why we think that we also should invest in it," Provotorov said in an interview.

More than 80 percent of the Russian mobile market, with 230 million active SIM cards, is controlled by three home-grown carriers — MTS, MegaFon and VimpelCom. Sweden's Tele2 is fourth, followed by Rostelecom.

A possible merger with Tele2's Russian unit, seen logical because of Tele2's failure to secure data-focused 3G and 4G licenses, would allow Rostelecom to claim the No.4 spot, said Provotorov, who had backed the idea before.

But such a deal is still "purely hypothetical," he said. "This process has so far led to nothing. All scenarios [reported in the press] have been rejected at first glance."

In the meantime Rostelecom — which has a stock market value of \$12 billion — is speeding up the roll out of its own networks, including in regions where Tele2 has traditionally been strong.

"Our mobile subscriber base grew last year. We are seeing a clear [upward] trend," he said, adding that Rostelecom would seek to grab market share in new regions with special deals.

Other growth pillars are IT and cloud business, now centered on state orders but set to target some 1 million corporate clients, as well as pay TV. Provotorov said cloud should account for up to 10 percent of revenue by 2017, up from 2 percent now.

Rostelecom's mobile ambitions have drawn criticism from the government, which has suggested it should instead invest in building out its Internet backbone infrastructure.

Provotorov says covering the whole Russian territory with internet cables is not economically viable, especially without "incentive measures" from the government.

"We forecast the retail broadband market will grow at an annual rate of 3 percent until 2017 in subscriber terms. There is no more growth of 15, 20 or 30 percent — so one can conclude that not everyone in Russia needs fast Internet," he said.

Provotorov has come under fire after a cabinet reshuffle last May following elections in which then-Prime Minister Vladimir Putin swapped jobs with then-President Dmitry Medvedev.

The reshuffle saw 30-year-old Nikolai Nikiforov replace Putin's ally Igor Shchyogolev — now in the Kremlin as a Putin aide — as telecom minister. Subsequent criticism has stoked speculation the government wants Provotorov out.

Rumors flared anew in November when investigators searched the homes of Provotorov and Konstantin Malofeyev, a 10.5 percent shareholder and Provotorov's former business partner, in a probe unrelated to Rostelecom.

Malofeyev is reportedly seeking a buyer for his stake, with Vedomosti reporting Wednesday that he is discussing a deal with tycoon Mikhail Prokhorov's Onexim group based

on valuation, which is 40 percent higher than the market price.

Provotorov admitted relations were problematic with the ministry, which has also criticized the firm's investment strategy and weak share price. Rostelecom shares have fallen 19 percent since the end of 2011, while the benchmark MICEX index has gained 8 percent.

"Of course there is a certain pressure ... Whether or not it is connected in any way with law enforcement bodies, one can only guess," he said.

Rostelecom's results in 2012 got a one-off boost from the state-funded project of live video surveillance voting in the presidential election won last March by Putin. Despite the lack of such one-offs, Provotorov still sees sales growing in 2013.

The company is still seeking a technical listing on the London Stock Exchange, but regulatory approval is complicated by an ongoing reorganization that may be completed later this year.

The current stage of the reform will see Rostelecom merge with its shareholder, holding company Svyazinvest, simplifying its ownership while maintaining state control.

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